

**REPORT OF
EXAMINATION**

OF

**BLUE CROSS AND BLUE SHIELD OF ALABAMA
BIRMINGHAM, ALABAMA**

AS OF

DECEMBER 31, 2017

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA COUNTY OF JEFFERSON

Palmer W. Nelson, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Blue Cross and Blue Shield of Alabama.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Blue Cross and Blue Shield of Alabama was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.



Palmer W. Nelson, CFE
Examiner-in-Charge

Subscribed and sworn before me by Palmer W. Nelson on this 8th day of March 2019.


(Signature of Notary Public)

My commission expires 05/19/2020



KAY IVEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

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DEPARTMENT OF INSURANCE
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DEPUTY COMMISSIONER
JERRY WORKMAN
MARK FOWLER

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RICHARD L. FORD

STATE FIRE MARSHAL
SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

March 8, 2019

Honorable Jim L. Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2017, has been made of

**Blue Cross and Blue Shield of Alabama
Birmingham, Alabama**

at its home office at 450 Riverchase Parkway East, Birmingham, AL 35244. The report of examination is submitted herewith. Where the description "The Company" or "BCBSAL" appears herein, without qualification, it will be understood to indicate Blue Cross and Blue Shield of Alabama.

SCOPE OF EXAMINATION

We have performed an examination of Blue Cross and Blue Shield of Alabama, a single state insurance company. The last examination covered the period of January 1, 2008 through December 31, 2012. The current examination covers the period of January 1, 2013 through December 31, 2017.

The examination was conducted in accordance with applicable statutory requirements of the Code of Alabama, 1975, as amended, the Alabama Insurance Department regulations, bulletins and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the *Code of Alabama, 1975*, as amended and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examination. The IS examination included a review

of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims handling, advertising and marketing, policy forms and underwriting, policyholders' complaints, producers' licensing requirements, and privacy standards. See the "Market Conduct Activities" section of this report on page 22 for further discussion.

Ernst & Young LLP was the Company's certified public accountant (CPA) for all years under examination. The examiners reviewed the CPA's workpapers, copies of which were incorporated into the examination as deemed appropriate. The workpapers of the Company's internal audit department were used to complete examination work as determined to be appropriate.

A signed letter of representation was obtained at the conclusion of the examination. In this letter, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2017.

ORGANIZATION AND HISTORY

The Company was organized on January 15, 1935, as the Hospital Service Corporation of Alabama, under the laws of the State of Alabama providing for the organization and regulation of nonprofit corporations for the establishment of health service plans. The Certificate of Incorporation was filed for record in the office of the Judge of Probate of Jefferson County, Alabama. An amendment to the Certificate of Incorporation, adopted at the regular annual meeting of the Board of Directors held on February 20, 1952, changed the Company's name to Blue Cross Blue Shield of Alabama.

To comply with the change required by Act Number 1041 enacted by the regular session of the Alabama Legislature of 1973, the Board of Directors held a meeting on October 24, 1973 and adopted several amendments to the Certificate of Incorporation and a revised set of By-Laws. The name of the Company was changed to Blue Cross and Blue Shield of Alabama, and the Board's composition was changed to reflect a majority of public directors.

To comply with the 1973 legislative changes, the objective and purpose of the Company was amended in the Certificate of Incorporation as follows:

To establish, maintain, and operate health care service plans under which health services of all types and forms and other services and commodities incidental thereto may be furnished to such of the public who, under the rules and regulations of the Corporation, make application and are eligible therefore; and to carry on any other lawful business whatsoever which may seem to the Corporation capable of being carried on in connection with the above, or calculated directly or indirectly to promote the interests of the Corporation or to enhance the value of its properties or the conduct of its business affairs.

No amendments were made to the Company's Certificate of Incorporation during the examination period. At their regularly scheduled meeting held March 26, 2008, the Board of Directors amended the By-Laws of the Corporation adopting a new Governance Policy and Committee Charters.

Blue Cross and Blue Shield of Alabama is a non-stock not-for-profit corporation organized under ALA. CODE § 10A-20-6.01 (2009), which provides that:

Any nonstock corporations organized not for profit for the purpose of establishing, maintaining, and operating a health care service plan under which health services are furnished to the public who become subscribers to the plan pursuant to contracts are authorized and shall be governed by the provisions of this article.

At December 31, 2017, the Company owns all of the common stock of Alabama Industries Financial Corporation (AIFC) and Preferred Care Services, Inc. (PCS), and is the single member of Healthcare Business Solutions, LLC (HBS) and 450 Ventures, LLC (450 Ventures). Investments in these affiliate entities are reported as equity securities in the statutory-basis balance sheets.

HBS, LLC owns all of the common stock of AlaHealth, Inc. (AlaHealth), is the single member of Cahaba Safeguard Administrators, LLC (CSA, LLC), Cahaba Government Benefit Administrators, LLC (CGBA), Government Management Services, LLC (GMS), and Lydian, LLC and owns 50% interests in My Care Alabama, Inc. and My Care Choices, Inc.

AIFC is the parent of UTIC Insurance Company (UTIC).

PCS, Inc. is the single member of Preferred Care Services, LLC (PCS, LLC). In 2015, PCS, Inc. purchased all of the outstanding stock of Insurance Management Administrators, Inc. (IMA) and a 51% interest in Access Health, Inc. (Access Health). In 2016, PCS, Inc. purchased a 98% interest in Lockard & Williams Insurance Services, Inc. (L&W). In 2017, PCS, Inc. formed Entrust Group, Inc. (Entrust), which is 100% owned by PCS, Inc., to purchase all of the outstanding stock of several Entrust related entities. Also in 2017, PCS, Inc. purchased Corporate Benefits Service, Inc. (CBS).

In 2017, the Company formed 450 Ventures for the purpose of holding strategic investments.

The Company also controls, through members of the Boards of Directors, The Caring Foundation (TCF), and owns controlling interests in Prime Therapeutics, LLC (Prime), and NDBH Holding Company, LLC (NDBH). The investments in Prime and NDBH are reported in other invested assets in the statutory-basis balance sheets.

MANAGEMENT AND CONTROL

Board of Directors

The enabling statutes generally, and the By-Laws specifically, provide that the management and control of the business, property and affairs of the Company shall be vested in the Board of Directors, which shall have all of the powers of the Company. Article I, Section 2 of the By-Laws provided that:

The Board of Directors shall be composed of 27 persons, consisting of the following:

- Fourteen public directors, who shall reflect the social, economic and geographic characteristics of the population served by the Corporation;
- The Chief Executive Officer of the Corporation, who shall be a member of the Board during and by virtue of occupancy of the chief executive office and the Corporation, or, when the office of the Chief Executive Officer is vacant, the President of the Corporation who shall be a member of the Board and by virtue of occupancy of the office of President while the office of the Chief Executive Officer remains vacant;
- Six directors, who shall be representatives of health care facilities participating as members of the Corporation in accordance with Section 10-4-102 of the *Alabama Code of 1975*; and

- Six directors, who shall be members of the medical profession in the state of Alabama.

No director (except the Chairman of the Board, the Chief Executive Officer and the President), who has served for two consecutive three-year terms, is eligible for re-election until he or she has not served on the Board for one year.

The composition of the Board of Directors, described above, complies with ALA. CODE § 10-4-103 (1975), which states in part:

The board shall be composed of not less than 15 nor more than 27 directors... Providers of health care and their representatives may also serve on the board, but in no event may constitute a majority thereof. Persons who derive income from the delivery or administration of health care or services shall not be eligible to serve as public directors.

Board members elected and serving at December 31, 2017 were as follows:

<u>Directors/Residence</u>	<u>Principal Occupation</u>
Martin Raymond Abroms Florence, Alabama	President Abroms & Associates, P.C.
William Keith Adkins, M.D. Auburn, Alabama	Auburn Gastroenterology
James Malcom Aycock Decatur, Alabama	President and CEO Cook's Pest Control, Inc.
Raymond James Browne, M.D. Birmingham, Alabama	Mayfair Internal Medicine
Lynn Randolph Buckner, M.D. Decatur, Alabama	Surgical Associates of North Alabama, P.C.
Luther F. Corley III, M.D. Huntsville, Alabama	Huntsville Hospital Lung Center
Reid Bentley Dove Dothan, Alabama	CEO AAA Cooper Transportation
Richard McConnell Freeman, M.D. Auburn, Alabama	Pediatric Associates of Auburn

Nancy Collet Goedecke
Birmingham, Alabama

Chairman of the Board and CEO
Mayer Electric Supply Company, Inc.

Carol Faris Gordy
Brewton, Alabama

President and CEO
Natural Decorations, Inc.

Leonidas Keith Granger
Birmingham, Alabama

President and CEO
Grandview Medical Center

Hoyt Ewin Harbin, III
Scottsboro, Alabama

President
Harbin Automotive

Walter Howlett, Jr.
Birmingham, Alabama

President and CEO
A. G. Gaston Construction Company, Inc.

Terry Dee Kellogg
Birmingham, Alabama

Vice Chairman, President and CEO
Blue Cross and Blue Shield of Alabama

Thomas Thompson Lamberth
Alexander City, Alabama

President and CEO
Russell Lands, Inc.

Charles Waldron Lancaster
Gadsden, Alabama

President
Lancaster Management, Inc.

Honorable Helen Shores Lee
Birmingham, Alabama

Circuit Judge
State of Alabama, Jefferson County

William Barry Morton, Jr.
Birmingham, Alabama

Chairman and CEO
Robins and Morton

Lothar Ephraim Peace III
Alexander City, Alabama

President and CEO
Russell Medical Center

Joe Brett Riley
Montgomery, Alabama

President and CEO
Jackson Hospital and Clinic, Inc.

James Michael Segrest
Huntsville, Alabama

President and CEO
The Spencer Companies, Inc.

Jeffery Miles St. Clair
Mobile, Alabama

President and CEO
Springhill Medical Center

William Jackson Stevens
Birmingham, Alabama

Chairman of the Board
Blue Cross and Blue Shield of Alabama

Michael Dewitt Thompson
Birmingham, Alabama

President
Thompson Tractor Company, Inc.

Ross B. Vaughn, M.D.
Tuscaloosa, Alabama

Tuskaloosa Internal Medicine

William Michael Warren, Jr.
Birmingham, Alabama

President and CEO
Children's of Alabama

Suzanne Elise Woods
Enterprise, Alabama

CEO
Medical Center Enterprise

Committees

Executive Committee

Article I, Section 14 of the By-Laws provided that the Company shall have an Executive Committee of the Board of Directors with authority to act as follows:

During intervals between meetings of the Board of Directors, the Executive Committee shall have, subject to the control and direction of the Board, the authority to exercise any and all of the powers and to perform any and all duties of the Board of Directors as may lawfully be exercised and performed by such Committee.

The following directors were serving on the Executive Committee as of December 31, 2017:

William J. Stevens, Chairman, ex officio
Terry D. Kellogg, Vice Chairman ex officio
James M. Aycock
Raymond J. Browne, M.D.
Carol F. Gordy
Thomas T. Lamberth
The Honorable Helen Shores Lee
Jeffery M. St. Clair

Hospital Advisory Committee

Article I, Section 13 of the By-Laws provided that the Board of Directors shall establish a Hospital Advisory Committee consisting of five hospital representatives who are not members of the Board and are knowledgeable in providing health services. The By-Laws states:

The Advisory Committee shall from time to time, as requested by the Board of Directors or any committee thereof, consult and advise with the Board of Directors or any committee or member thereof concerning matters as to which consultation or advice is requested by such Board or committee.

The following persons were serving on the Hospital Advisory Committee as of December 31, 2017:

William Andrew Davis, Chairman
James Clements
Vernon Johnson
Russell E. Pigg
J. Peter Selman

Other Committees

Article I, Section 15 of the Company's By-Laws states:

The Board of Directors or the Chairman of the Board may appoint such committees from the members of the Board as may be deemed necessary or advisable and may prescribe their respective powers authorities and duties.

These other committees were in addition to the Executive Committee and the Hospital Advisory Committee, both of which were required by the Company's By-Laws.

The following committees had been established and existed as of December 31, 2017:

Medical Review Committee

Raymond James Browne, M.D., Chairman
William Keith Adkins, M.D.
L. Randolph Buckner, M.D.
Luther (Trey) Corley, M.D.
Richard M. Freeman, M.D.
Ross B. Vaughn, M.D.

Audit Committee

James M. Aycock, Chairman

Reid B. Dove
Nancy C. Goedecke
Walter Howlett, Jr.
Charles W. Lancaster
Jeffery M. St. Clair

Compensation Committee

Thomas T. Lamberth, Chairman
Carol F. Gordy
Hoyt E. Harbin
J. Michael Segrest
William J. Stevens, ex officio
Michael D. Thompson

Nominating Committee

Honorable Helen Shores Lee, Chairman
Luther (Trey) Corley, M.D.
Charles W. Lancaster
William B. Morton, Jr.
W. Michael Warren

Facility Standards Committee

Carol F. Gordy, Chairman
Martin R. Abroms
L. Keith Granger
Hoyt E. Harbin
Lothar (Jim) Peace
Joe B. Riley
Suzanne E. Woods

Officers

The following officers were elected by the Board of Directors and were serving at December 31, 2017:

<u>Position</u>	<u>Name</u>
Chairman of the Board	William J. Stevens
Vice Chairman of the Board, President	Terry D. Kellogg*

and Chief Executive Officer

Executive Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President

Vice President and Secretary

Vice President

Vice President

Vice President

Vice President

Vice President and Treasurer

Vice President

Vice President

Assistant Secretary

Timothy Vines

D. Dow Briggs III, M.D.

Noel W. Carden

Tony H. Carter

Charles B. DeCroes

Joseph E. Dunsmore

Brian D. Edwards

Rebekah Elgin-Council

Sheila P. Herringdon

James S. Hill

Jeffrey A. Ingram

Angela D. Jarrett

Kipp D. Keown

Carol D. Mackin

B. Scott McGlaun

Douglas E. McIntyre

Ashley S. Mosko

Robert R. Orr, Jr.

Michael L. Patterson

Vickie L. Saxon

Mary C. Smith

J. Robin Stone

Michael J. Velezis

Cynthia M. Vice

Brandon S. Ward

Darrel C. Weaver, M.D.

Lisa T. Machado

*Retired March 28, 2018

Conflicts of Interest

The Company requires that conflict of interest statements be completed annually by all directors, officers and exempt status employees. Officers, directors and managers are also required to complete a Code of Ethics Certification on an annual basis. This certifies their understanding and agreement to abide by the Company's ethical standards and expectations. In addition, the Company requires every new employee, whether they are exempt, non-exempt, full-time, part-time or contracted, to attend a Code of Business Conduct and Compliance Program. This Program provides employees with a formal statement of the Company's standards and rules of ethical

business. At the end of the program, the employees are required to sign a statement of understanding, which is maintained in the employees' personnel files.

A review was conducted of all conflict of interest statements filed by the Board of Directors and the Officers during the examination period. No items of disclosure, which may have had the potential of a material or adverse impact on the operations of the Company, were noted.

CORPORATE RECORDS

The Certificate of Incorporation and By-Laws and any amendments thereto, were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations.

HOLDING COMPANY AND AFFILIATE MATTERS

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as joint registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company as joint registrant. A review of the Company's filings during the period under review did not disclose any omissions in them.

Administrative Service and Tax Allocation Agreements

The following administrative service agreements and tax allocation agreements were in effect as of December 31, 2017.

Affiliated Agreements

UTIC Insurance Company Administrative Services Agreement

The Company entered into an agreement with UTIC Insurance Company (UTIC) January 1, 2015. The agreement replaced the previous administrative services agreement that became effective May 31, 2010. Under the terms of the agreement the Company provides administrative services for UTIC. The Company's specific responsibilities include: Acting on behalf of UTIC for purpose of servicing activities necessary to implement this agreement; Provide all accounting, legal and auditing services necessary for the operation of UTIC; Supply personnel staff as needed;

Provide such other managerial, administrative, operational, and professional services as may reasonably be necessary for the conduct of UTIC business. The agreement provides that all direct cost will be billed to UTIC and the Company will be reimbursed for the indirect cost based on the usage of time and materials for functions providing administrative services to UTIC. The initial agreement term ran through December 31, 2014 and the agreement terms provide for the agreement to renew for each successive one year term. The agreement may be cancelled by either party giving the other 180 day notice.

Alabama Industries Financial Corporation Administrative Services Agreement

The Company entered into an Administrative Service Agreement with Alabama Industries Financial Corporation (AIFC) effective January 6, 1986. AIFC was organized for the purpose of conducting the business of an insurance holding company. AIFC owns all the common stock of UTIC and is a wholly-owned insurance subsidiary of BCBSAL.

Under the Agreement, BCBSAL is to provide the following:

- To prepare all necessary legal documents, including regulatory, tax and other governmental filings for the conduct of AIFC business.
- To provide all data processing, accounting and legal services necessary for the operation of AIFC.
- To act on behalf of AIFC for the purpose of negotiating, coordinating and servicing activities necessary to implement the Agreement or to AIFC's business.
- To provide all functions associated with the marketing of AIFC's services.
- To provide personnel staffing, office equipment and other managerial, administrative, and professional services as may reasonably be necessary to conduct AIFC's business.

BCBSAL agrees that its Administrative charges shall be established so as to reimburse BCBSAL for its costs of provision of such services on a non-profit basis. BCBSAL will bill AIFC for costs incurred on the latter's behalf during the previous month.

The Agreement shall be in effect from January 6, 1986, through December 31, 1986, and shall be automatically renewed thereafter for terms of one year unless written notice to the contrary is given by either party to the other not less than sixty days before the effective date of any one year term.

Cahaba Government Benefit Administrators, LLC Administrative Services Agreement

Cahaba Government Benefit Administrators, LLC (CGBA) is a single-member limited liability company that operates to assume the responsibilities of BCBSAL as Medicare fiscal intermediary and carrier responsibilities for Parts A and B of the Medicare Program under contracts with the Centers for Medicare & Medicaid Services (CMS). BCBSAL entered into an administrative services agreement with CGBA effective April 1, 2006.

Under this agreement CGBA will manage the Medicare Part B contract and Part A subcontract, while BCBSAL will provide the following services for CGBA:

- Facilities, personnel and experience in bidding on and negotiating Medicare Administrator Contractor (MAC) contracts and other Medicare Work.
- Prepare and forward billing and fee collection.
- Provide consultative functions with respects to bidding on MAC contracts and other Medicare work.
- Provide human resources, system support, purchasing, LAN administration, telecommunication services, and graphic services, compliance support and other operating functions.

The administrative charges consist of fully loaded labor rates and are established so as to reimburse BCBSAL for its costs of provision of such services on a non-profit basis. BCBSAL will bill CGBA monthly for costs incurred on the latter's behalf during the previous month.

The Agreement was in effect from April 1, 2006 through March 31, 2007 and automatically renewed for successive terms of one year. The Agreement may be terminated by written notice given by either party to the other not less than 180 days before the end of any one-year term.

Healthcare Business Solutions, LLC Administrative Services Agreement

The Company entered into an administrative services agreement with Healthcare Business Solutions, LLC (HBS) effective June 2, 2013. HBS is a subsidiary of the Company and provides marketing services and pursues new business in government programs on behalf of the Company and its affiliates that perform services for the government. The Company agreed with HBS to provide HBS the necessary and appropriate administrative support services for a fee. The Company agreed to provide multiple types of services to HBS, including without limitation, information

technology, systems security, corporate communications, accounting, human resources, physical security, facilities, and purchasing. It was agreed that the Company will be reimbursed for the cost of the direct and indirect cost incurred to provide such services. The initial agreement was for an annual term. The terms of the agreement provide that the agreement shall be renewed for each successive one year term until either party terminates the agreement by providing the other party sixty days written notice.

My Care Alabama, Inc. Administrative Services Agreement

The Company entered into an agreement with My Care Alabama, Inc. (MCA) effective April 1, 2015. MCA received certification from the Alabama Medicaid Agency as a probationary regional care association and also received a contract to provide case management services for the Health Home Program in Region A.

Under the terms of the agreement the Company is to provide certain services for assistance with implementing and administering the Health Home Program contract. The agreement indicates that the Company will be paid for services provided in accordance with the fee schedule set forth in any Task Order which may be amended from time to time by mutual consent of both parties. After one year, the agreement is to automatically renew for successive one year periods, unless non-renewal is terminated by either party giving ninety day notice of non-renewal.

Government Management Services, LLC Administrative Services Agreement

The Company entered into an agreement with Government Management Services, LLC (GMS) effective January 3, 2014. GMS has been awarded a contract with TriWest to support TriWest's efforts in performance of TriWest's contract with the Veteran's Administration to provide for delivery of purchased care for eligible beneficiaries under the VA Patient-Centered Community Care program. Under the terms of the agreement the Company provides assistance in establishing and managing a network of healthcare providers in the state of Alabama to support TriWest's performance of the program. The payment methodology is based on the number of individual providers credentialed and included in the VA Patient-Centered Community Care program in accordance with the negotiated contract rate. The agreement may be mutually terminated in writing or terminated by either party providing the other thirty days' written notice.

Preferred Care Services, Inc. Administrative Services Agreement

The agreement between the Company and Preferred Care Services, Inc. (PCS) was retroactively effective as of January 1, 2015. PCS is a management company that provides healthcare programs, products, and services.

Under the terms of the agreement the Company agreed to assume and carry out the following administrative and managerial responsibilities and services for PCS:

- Prepare such forms, agreements, and other related legal documents necessary for PCS to conduct business.
- Perform services necessary for negotiating, coordinating, and servicing the implementation of the agreement as necessary on PCS's behalf.
- Provide such data processing, accounting, legal services, personnel staffing, and office equipment necessary for PCS to conduct business.
- Provide other managerial, administrative, operational, and professional services as necessary to conduct business.

It was agreed that the administrative charges shall be established so as to reimburse the Company for its costs of providing such services on a non-profit basis. The Company will bill PCS monthly for costs incurred on the Company's behalf during the previous month. All amounts shall be paid within ninety days of the billing date. The Agreement shall be in effect from May 31, 2010 through April 30, 2011, and shall be automatically renewed thereafter for successive like terms of one year unless written notice to the contrary is given by either party to the other not less than 180 days before the end of any one-year term. In the event of termination in the manner provided above, it will terminate at the end of the one-year term in which such written notice of termination is given.

The Caring Foundation

The Company entered into an administrative services agreement with The Caring Foundation (TCF) effective May 31, 2010. TCF is a non-profit corporate foundation formed to channel most of BCBSAL's charitable contributions.

The agreement provides that BCBSAL is to provide the following services to TCF:

- Accounting, data processing, legal services, and other managerial, administrative and professional services.

- To act on behalf of TCF for the purpose of negotiating, coordinating, and servicing activities necessary to implement the Agreement.

Both parties agree to maintain in accordance with standard and accepted accounting practices such financial and accounting records as shall be necessary, appropriate or convenient for the proper administration of this Agreement.

The term of this agreement is one year from the effective date of May 31, 2010 through April 30, 2011, and shall be automatically renewed thereafter for successive like terms of one year unless written notification to the contrary is given by either party to the other not less than 180 days before the end of any one-year term. In the event of termination of the Agreement in the manner provided above, it will terminate at the end of the one-year term in which such written notice of termination is given.

The Service Agreement does not provide for billing or payment for administrative charges.

Prime Therapeutics, LLC Administrative Services Agreement

The Company entered into an amended and restated agreement with Prime Therapeutics, LLC (Prime) effective January 1, 2016. Prime provides certain pharmacy benefit management and other drug benefit programs designed to reduce prescription drug benefit and related healthcare costs as medically appropriate. The Company entered into an agreement with Prime to provide such services for the Company and the Company will pay Prime the negotiated contract rate for such services.

Tax Allocation Agreements

As of December 31, 2017, BCBSAL had a separate tax sharing agreement with Alabama Industries Financial Corporation, Cahaba Government Benefit Administrators, LLC, Cahaba Safeguard Administrators, LLC, Preferred Care Services, Inc., Healthcare Business Solutions, LLC, UTIC Insurance Company, Lydian, LLC, IMA, Inc., AlaHealth, Inc., and Lockard & Williams. The agreements provided for a consolidated federal income tax return for all affected entities and the terms of each agreement allocated the federal income tax expenses and/or benefits among the respective entities.

Unaffiliated Agreements

New Directions Behavioral Health Administrative Services Agreement

The Company entered into an agreement with New Directions Behavioral Health (NDBH) effective January 1, 2014. NDBH agreed to provide access to a provider network, and for member management, utilization review and physician review services for behavioral health and substance abuse inpatient treatment, partial hospitalization, intensive outpatient program treatment, residential treatment and other services for the Company and the Company agreed to pay for such services provided by NDBH in accordance with the fee schedule. The agreement shall remain in effect for four years, subject to termination provisions. After the initial four year period, the agreement will automatically renew for a twelve month period, unless terminated. The agreement involves special termination provisions and a no cause termination in which either party may terminate the agreement at any time by giving the other party 180 days' advance notice.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured with Travelers Indemnity Company for an aggregate amount, which met the suggested minimum requirements of the NAIC *Financial Condition Examiners Handbook*. In addition to this coverage, the Company also had insurance coverage for the following:

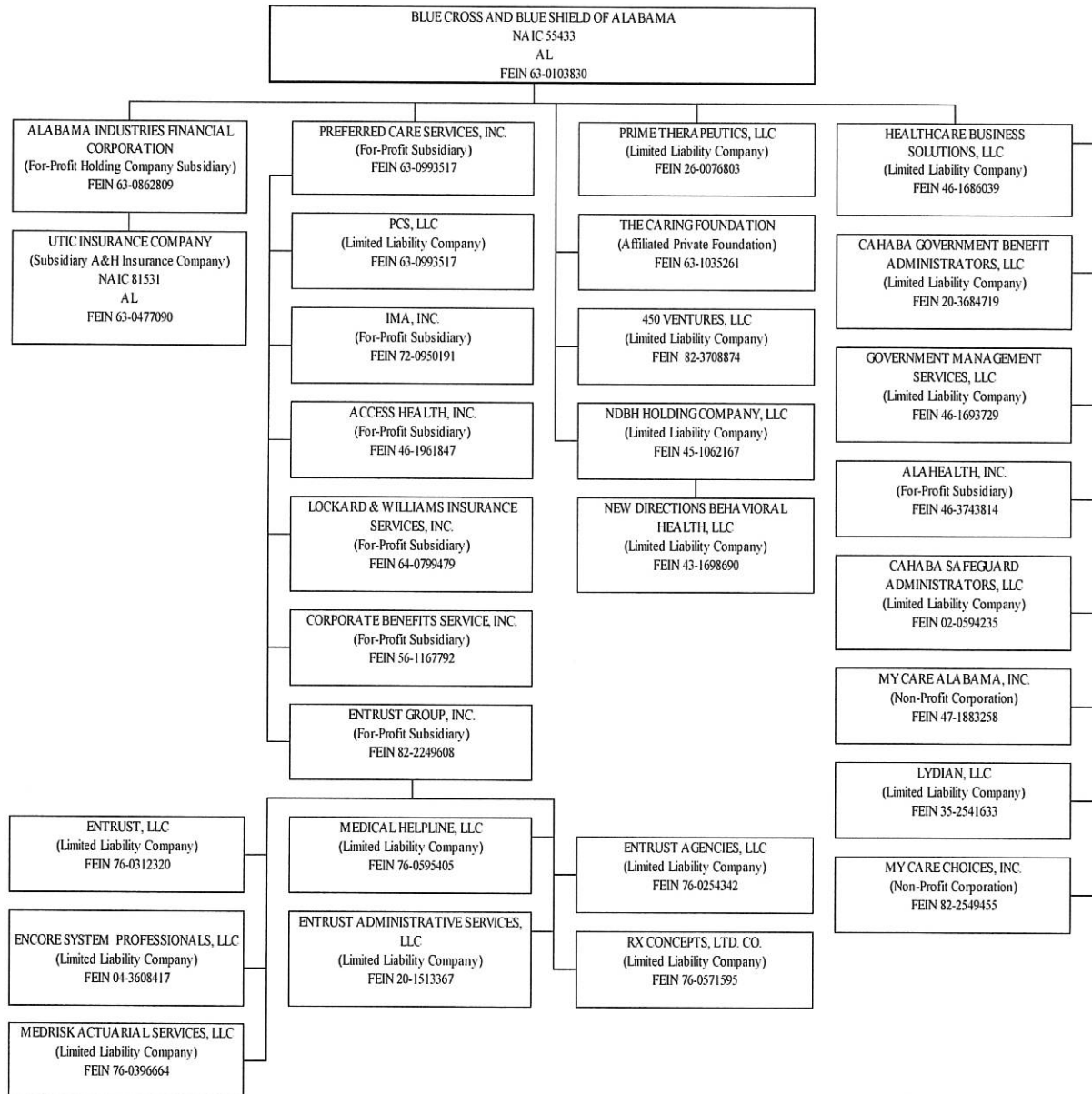
- Auto Coverage provided by Travelers Property and Casualty Company.
- Flood Insurance Policy provided by Selective Insurance Company of the Southeast
- Blanket Coverage provided by Travelers Indemnity Company which included:
 - Building and Personal Property
 - Personal Property on Each Premises and In-Transit
 - Valuable Papers
 - Accounts Receivables on Premises and In-Transit
 - Newly Constructed or Acquired Building
 - Utility Service
- Commercial Excess Liability Umbrella Insurance provided by Travelers Property Casualty Company
- Private Company Directors and Officers Liability provided by Travelers Bond & Specialty Insurance for the first layer. Additional layers provided by various other carriers.

- Managed Care Errors and Omissions provided by National Fire & Marine Insurance Company for the first layer. Additional layers provided by various other carriers.
- Crimes and Fidelity provided by Travelers Casualty and Surety Company of America.
- Cyber Insurance policy provided by Aspen Specialty Insurance Company for the first layer. Additional layers provided by various other carriers.

ORGANIZATIONAL CHART

The following chart presents the affiliations of the entities affiliated with the Company.

ORGANIZATIONAL CHART



COMPLIANCE WITH 18 U.S.C. § 1033

18 U.S.C. § 1033(e)(1)(A) and ALA. ADMIN. CODE 482-1-146 (2009) prohibits individuals who have been convicted of specified criminal activity from engaging in the business of insurance without written consent from the Commissioner of Insurance. The Company, as part of its hiring procedures, requires potential employees and contractors to disclose and explain any criminal convictions, and criminal background checks are performed on all new hires. Criminal background re-investigations of existing employees are conducted every five years. The Company also requires all employees to sign a conflict of interest statement yearly stating that they have not been convicted of a felony since becoming an associate of the Company. Reviews of the background checks performed for new employees hired during the examination and the re-investigations performed for existing employees was conducted. The review did not identify any instances of non-compliance.

SCHEDULE OF SPECIAL DEPOSITS

The Company maintained the following deposit with the respective statutory authority at December 31, 2017, as required or permitted by law.

<u>State</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Alabama	\$30,000	\$30,000

FINANCIAL CONDITION / GROWTH OF THE COMPANY

Year	Admitted Assets	Liabilities	Capital and Surplus	Net Premium Income
2017	\$3,936,377,447	\$2,054,687,473	\$1,881,689,974	\$5,800,019,838
2016	\$3,031,369,212	\$1,773,505,876	\$1,257,863,336	\$5,157,965,661
2015	\$2,840,652,626	\$1,698,475,506	\$1,142,177,120	\$4,813,879,059
2014	\$2,865,283,518	\$1,787,899,812	\$1,077,383,706	\$4,554,487,632
2013	\$2,839,511,766	\$1,595,582,116	\$1,243,929,650	\$4,130,972,563

MARKET CONDUCT ACTIVITIES

Management and Operations

Territory

The Company's certificate of authority was issued by the State of Alabama's Department of Insurance with an effective date of June 1, 1991, and remains in effect until suspended, cancelled, or revoked, as long as fees and taxes are currently paid.

The Company markets its products in all 67 counties in the state of Alabama. Blue Cross and Blue Shield of Alabama writes Health, Dental and Pharmacy policies for the Commercial Market and Health and Pharmacy policies for the Medicare market. The Company is only licensed in Alabama to write and issue: Health, Comprehensive (Hospital and Medical), Medicare Supplement, Dental, Federal Employees Health Benefit Plan, and Title XVIII Medicare.

Plan of Operation

The Company is a non-stock, not-for-profit Company, which maintains and operates health care plans under which services are offered to the public. Blue Cross and Blue Shield of Alabama offers Health and Dental products to the group and individual markets in all 67 counties of the state. The Company utilizes Account Executives, District Account Representatives and District Sales Representatives for the employer group market. Insurance Advisors sell to the individual consumers along with the fewer than 15 employee small groups. In addition, the consumers and small groups with less than 15 employees can purchase coverage on the Company's website. The Company is headquartered in Birmingham, Alabama, with service and satellite offices throughout the state of Alabama.

Marketing and Sales

The Company's advertising and marketing strategy was delivered through a variety of mediums including: televisions, direct mail, radio, print, online display, and social media sites. The Company's marketing focus was limited to the state of Alabama residents. All of the advertising materials are coordinated through the Company's marketing department. A sample of 86 advertising materials was randomly selected from a population of 405. It was determined that the advertisements did not reference a specific policy. The examiner determined that the majority of the Company's advertising was brand advertisement.

Policyholder Complaints

The examiner selected a random sample of 114 complaints from the population of 1,514 complaints filed with the Company during the examination. The Company recorded all of its complaints both consumer direct and those received from the Department of Insurance in its complaints register in the required format. The Company had adequate complaint procedures in place for the distribution of complaints, and obtaining and recording responses to the complaints. During the examination period, the examiner reviewed the Company's consumer direct and Department of Insurance complaints. It was determined that the complaints were responded to timely and addressed the issues raised.

Claims Handling

Paid Claims

A sample of 110 Alabama paid claims were selected from a total population of approximately 47 million transactions for the examination period (2013-2017). The sample was reviewed for compliance with the Company's policy provisions, timeliness of payments, and adequacy of documentation. The Company provided a reasonable explanation for the electronic claims that took over thirty days for payment. There were no issues noted as a result of the sample review. Each claim in the sample was paid in compliance with ALA. CODE § 27-1-17(a) (1975), which states:

Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim. If the insurer, health service corporation, or health benefit plan is denying or pending the claim, the insurer, health service corporation, or health benefit plan shall, within 45 calendar days for a written claim and 30 calendar days for an electronic claim, notify the health care provider or certificate holder of the reason for denying or pending the claim and what, if any, additional information is required to process the claim. Any undisputed portion of the claim shall be paid in accordance with the foregoing schedule.

Closed Without Payment/Denied Claims

A sample of 109 Alabama denied and closed without payment claims was selected from a population of approximately 8.7 million closed without payment or denied claims for the examination period (2013-2017). The sample was reviewed for compliance with the Company's policy provisions and adequacy of documentation. No discrepancies were found as a result of the sample review.

Closed Litigated Claims

The population of 74 closed litigated claims were reviewed during the examination period (2013-2017). No problematic claim handling practices were noted during the review.

Compliance with Producer Licensing Requirements

Producer Appointments

The examiner selected a random sample of 116 incentive payments to producers during the examination period. The examiner used the NAIC's State Based System (NAIC SBS) to verify that all of the producers were appropriately licensed and appointed by the Company prior to writing the business.

Producer Terminations

A sample of 113 producer terminations was selected from 1,508 producers that were terminated during the examination period. The sample review resulted in the following examination findings. The examiners determined that the Company did not send the required termination notifications to twenty terminated producers. In addition, termination notification to seven producers was not sent within fifteen days, after making the notification as required by ALA. CODE § 27-7-30.1 (a) (1975), which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

The Company also did not provide evidence that seven producer's notifications to the Alabama Department of Insurance were sent. The Company was not in compliance with ALA CODE § 27-7-30 (e) (1975), which states:

Subject to the producer's contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

Underwriting and Rating

A sample of 116 premium transactions was selected from the written premiums data provided by the Company for the period under examination. The sample was used to verify the rates in use during the exam period for the following Health Plans: 1) Individual, 2) Small Employers (1-50 full-time equivalent employees), and 3) Large Employers (51 + full-time equivalent employees) were filed and approved by the Alabama Department of Insurance in accordance with ALA. CODE § 10A-20-6.10 (1975) which states:

The rates, charges, fees, and dues to be paid by the public for benefits under a health service plan and for contracts or certificates covering same shall not be unreasonably high or excessive, shall be adequate to meet the liability assumed under the contracts and all expenses in connection therewith, shall be adequate for the safeness and soundness of the corporation, and shall take into account past and prospective loss experience. A health care service corporation shall file with the Commissioner of Insurance any change in its rates, charges, fees, and dues, and, as soon as reasonably possible after the filing has been made the commissioner shall, in writing, approve or disapprove the same, provided that, unless disapproved within 30 days after filing, the changed rates, charges, fees, or dues shall be deemed to be approved...

For the sample of 116 premium transactions, the examiners determined the following:

For the thirty items from the Individual Health Plans, the premiums charged during the exam period were in accordance with the rates approved by the Alabama Department of Insurance.

For the thirty-nine items from the Small Employers Plans, the premiums charged during the exam period were in accordance with the rates approved by the Alabama Department of Insurance.

For the forty-seven items from the Large Employers Plans, the examiner determined the following:

- Three items were from the 2017 written premiums transactions. The examiner recalculated the premiums and determined that the rate in use was filed and approved by the Alabama Department of Insurance.
- Forty-four items were from the 2013 – 2016 written premiums transactions. The Company provided the rates in use during the period. The examiner recalculated the premiums and determined that the rates in use were in accordance with the rate table provided by the Company for the years 2013-2016.

The Company was asked to explain the rates in use during the 2013 – 2016 period. Company management indicated the following:

In reviewing Section 10A-20-6.10, our interpretation is that this section does not apply for BCBSAL to file our large group rates. Historically we have filed small group and individual with the Department. The Department has not set up a procedure or imposed a requirement. In 2016, Department asked if we could provide them with an information filing related to merit rates which BCBSAL did and has continued that process for years 2017 and 2018.

A Sample of 116 policy cancelations was selected from a population of 574,030 cancelations that occurred during the examination period. The sample was reviewed to make the determination of whether the policies were canceled in accordance with the policy provisions. It was determined that each policy in the sample was properly canceled in accordance with the policy provisions.

Privacy Standards

The Company's HIPAA Privacy Notice described how the medical information about the customer may be used to disclose and how they gain access to the information. The Privacy Statement detailed the privacy objectives regarding Security Practices, Use of Email, Cookies, Surveys and Forms, Updates to the Statement and Confidentiality. The Company did not disclose nonpublic personal financial

information that it received from nonaffiliated financial institutions. The Company had reasonable administrative, technical, and physical safeguards in place to secure the privacy of Protected Health Information (PHI). The Company complied with the privacy requirements of ALA. ADMIN. CODE 482-1-122 (2001).

REINSURANCE

Reinsurance Assumed

The Company did not assume any reinsurance during the examination period.

Reinsurance Ceded

100% Reinsurance Agreement – UTIC Insurance Company

On February 9, 2011, Management informed the Department of Insurance that the Company would transfer 100% of the risk associated with its long-term care (LTC) policies to United Trust Insurance Company (UTIC), a wholly-owned subsidiary. The Company had discontinued writing new LTC business in 2010. This risk transfer was effective January 1, 2011, and all LTC policies remained on BCBSAL paper. BCBSAL financially guaranteed the obligations assumed by UTIC in a risk transfer agreement signed in June 2011 and effective January 1, 2011, and also funded the reserve liability at January 1, 2011. At the request of the Department of Insurance, the Company also executed a 100% quota share reinsurance agreement that was retroactively effective on January 1, 2011. This reinsurance agreement was executed and signed by the parties in August 2013. Effective January 1, 2015, United Trust Insurance Company officially changed its name to UTIC Insurance Company.

Pool Excess of Loss Reinsurance Agreement with BCS Insurance Company

The reinsurance agreement in effect on the December 31, 2017 examination date was a pool excess of loss reinsurance agreement that the Company entered into with BCS Insurance Company on January 1, 2017, for a term of one year. The agreement succeeded an agreement for a one year term and the agreement was succeeded by another reinsurance agreement for a one year term.

The agreement covered losses from any one qualifying loss in excess of \$2.5 million. There is no limit under the contract.

The agreement has a pool gain sharing endorsement. The endorsement has provisions that allow all participating ceding insurers, consisting of multiple states

Blue Cross and Blue Shield Associations to receive a portion of the gains, if any, from the ceded reinsurance of all participants in the pool.

ACCOUNTS AND RECORDS

The Company has redundant computer systems to mitigate risks associated with business functions and data security. The Company's two IBM mainframes ensure near real-time system redundancy. Both the Pope Technology Center and the Riverchase building computer rooms were secured using biometric scanners and were continually monitored by security personnel.

As of December 31, 2017, the Company had two permitted practices. One letter dated December 3, 2009, permits the Company to expense internally developed software expenses as they are incurred rather than capitalize a portion of the cost. Another letter dated February 5, 2018, permits the Company to account for taxes and fees associated with the Affordable Care Act in a manner stipulated by the Department. This permitted practice affected the 2017 financial statements.

Ernst & Young LLP, Certified Public Accountants, Birmingham, Alabama, audited the Company for the five year examination period. Audit workpapers, reports, and management letters for 2013 - 2017 were reviewed and utilized in the examination to the extent deemed appropriate.

The Company's opining actuary for the examination period was Noel Winfred Carden, FSA, MAAA, Vice President and Chief Actuary for BCBSAL.

FINANCIAL STATEMENT INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the State Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on the financial statements reflect any examination adjustments to the amount reported in the annual statement and should be considered an integral part of the financial statements.

	Page
Statement of Assets, Liabilities, Surplus and Other Funds (Assets)	30
Statement of Assets, Liabilities, Surplus and Other Funds (Liabilities)	31
Statement of Revenue and Expenses	32
Capital and Surplus Account	33

Blue Cross and Blue Shield of Alabama
Statement of Assets
For the Year Ended December 31, 2017

	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 1,605,508,792		\$ 1,605,508,792
Common stocks	578,381,561	1,000,000	577,381,561
Real estate	103,001,477	325,591	102,675,886
Cash, cash equivalents, and short-term investments	481,050,715		481,050,715
Other invested assets	<u>120,650,017</u>	<u>3,415,892</u>	<u>117,234,125</u>
Subtotals, cash and invested assets	<u>\$ 2,888,592,562</u>	<u>\$ 4,741,483</u>	<u>\$ 2,883,851,079</u>
Investment income due and accrued	11,830,786		11,830,786
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	\$ 401,954,360	\$ 1,233,267	\$ 400,721,093
Accrued retrospective premiums and contracts subject to redetermination	19,302,862		19,302,862
Reinsurance:			
Amounts recoverable from reinsurers	8,113,050		8,113,050
Amounts receivable relating to uninsured plans	208,132,569	86,993	208,045,576
Current federal and foreign income tax recoverable and interest thereon	1,234,456		1,234,456
Net deferred tax asset	626,707,389	358,244,293	268,463,096
Electronic data processing equipment and software	16,041,530	15,497,629	543,901
Furniture and equipment, including health care delivery assets	3,570,375	3,570,375	
Receivables from parent, subsidiaries and affiliates	8,479,289	239,702	8,239,587
Health care (\$125,951,352) and other amounts receivable	156,986,056	31,034,704	125,951,352
Aggregate write-ins for other-than-invested assets	<u>\$ 31,390,663</u>	<u>\$ 31,310,054</u>	<u>\$ 80,609</u>
TOTAL ASSETS	<u>\$ 4,382,335,947</u>	<u>\$ 445,958,500</u>	<u>\$ 3,936,377,447</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Blue Cross and Blue Shield of Alabama
Statement of Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2017

LIABILITIES

Claims unpaid	\$ 427,506,291
Unpaid claims adjustment expenses	8,774,041
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	457,734,720
Premiums received in advance	67,411,015
General expenses due or accrued	570,239,684
Current federal and foreign income tax payable and interest thereon	11,896,348
Ceded reinsurance premiums payable	1,132,263
Amounts withheld or retained for the account of others	79,177,606
Amounts due to parent, subsidiaries and affiliates	68,729
Payable for securities	60,445,976
Liability for amounts held under uninsured plans	265,940,431
Aggregate write-ins for other liabilities	<u>104,360,369</u>
Total Liabilities	<u>\$ 2,054,687,473</u>

SURPLUS

Aggregate write-ins for special surplus funds	113,105,121
Unassigned funds (surplus)	<u>1,768,584,853</u>
Total Surplus	<u>\$ 1,881,689,974</u>
Total Liabilities and Surplus	<u>\$ 3,936,377,447</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Blue Cross and Blue Shield of Alabama
Statement of Revenue and Expenses
For the Years Ended December 31, 2017, 2016, 2015, 2014 and 2013

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net premium income	\$ 5,800,019,838	\$ 5,157,965,661	\$ 4,813,879,059	\$ 4,554,487,632	\$4,130,972,563
Change in unearned premium reserves and reserve for rate credits	(29,330,357)	(2,179,911)	50,842,607	22,667,967	\$ (16,912,021)
Aggregate write-ins for other health care related revenues	<u>173,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	\$ 5,770,863,187	\$ 5,155,785,750	\$ 4,864,721,666	\$ 4,577,155,599	\$4,114,060,542
Hospital and Medical:					
Hospital/medical benefits	\$ 2,543,127,326	\$ 2,378,403,412	\$ 2,472,530,992	\$ 2,233,884,723	2,056,471,424
Other professional services	642,025,356	600,580,641	593,537,430	578,026,866	530,108,972
Emergency room and out-of-area	531,878,247	514,428,848	483,873,093	404,844,061	329,843,210
Prescription drugs	1,114,949,934	1,106,750,571	1,081,164,022	908,109,096	756,340,724
Incentive pool, withhold adjustments and bonus amounts	<u>1,355,246</u>	<u>3,133,279</u>	<u>3,972,066</u>	<u>875,743</u>	<u>2,631,800</u>
Subtotal	\$ 4,833,336,109	\$ 4,603,296,751	\$ 4,635,077,603	\$ 4,125,740,489	\$3,675,396,130
Less:					
Net reinsurance recoveries	\$ 11,532,253	\$ 46,103,332	\$ 119,248,601	\$ 76,932,330	\$ (465,030)
Total hospital and medical	4,821,803,856	4,557,193,419	4,515,829,002	4,048,808,159	3,675,861,160
Claims adjustment expenses	159,224,447	128,854,255	141,153,131	134,244,246	129,167,200
General administrative expenses	<u>347,829,340</u>	<u>359,328,579</u>	<u>418,433,306</u>	<u>364,535,240</u>	<u>254,488,538</u>
Total underwriting deductions	\$ 5,328,857,643	\$ 5,045,376,253	\$ 5,075,415,439	\$ 4,547,587,645	\$ 4,059,516,898
underwriting gain or (loss)	\$ 442,005,544	\$ 110,409,497	\$ (210,693,773)	\$ 29,567,954	\$ 54,543,644
investment income earned	48,372,015	32,001,499	40,097,117	39,391,966	37,805,492
Net realized capital gains (losses)	<u>\$ (24,690,936)</u>	<u>\$ (8,423,131)</u>	<u>\$ 32,244,307</u>	<u>\$ 13,788,896</u>	<u>\$ 11,396,931</u>
Net investment gains (losses)	23,681,079	23,578,368	72,341,424	53,180,862	49,202,423
Net Income or (loss) after capital gains tax and before all other federal income taxes	<u>\$ 465,686,623</u>	<u>\$ 133,987,865</u>	<u>\$ (138,352,349)</u>	<u>\$ 82,748,816</u>	<u>\$ 103,746,067</u>
Federal and foreign income taxes incurred	<u>\$ 122,319,867</u>	<u>\$ 50,054,215</u>	<u>\$ (99,386)</u>	<u>\$ 29,962,259</u>	<u>\$ 34,649,807</u>
Net income (loss)	\$ 343,366,756	\$ 83,933,650	\$ (138,252,963)	\$ 52,786,557	\$ 69,096,260

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Blue Cross and Blue Shield of Alabama
Capital and Surplus Account
For the Years Ended December 31, 2017, 2016, 2015, 2014 and 2013

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital and surplus, December 31, prior year	\$ 1,257,863,336	\$ 1,142,177,120	\$ 1,077,383,706	\$ 1,243,929,650	\$ 1,118,864,635
Net income (loss)	<u>343,366,756</u>	<u>83,933,650</u>	<u>(138,252,963)</u>	<u>52,786,557</u>	<u>69,096,260</u>
Change in net unrealized capital gains (losses) less capital gains tax	\$ 111,110,351	12,585,822	(18,963,102)	(923,932)	49,347,503
Change in net deferred income tax	41,401,132	491,677,752	(25,398,559)	24,677,132	511,319
Change in nonadmitted assets	176,450,599	(474,481,974)	41,143,736	(31,202,218)	78,279,825
Aggregate write-ins for gains or (losses) in surplus	(48,502,200)	1,970,966	206,264,302	(211,883,483)	(72,169,892)
Net change in capital and surplus	<u>\$ 623,826,638</u>	<u>\$ 115,686,216</u>	<u>\$ 64,793,414</u>	<u>\$ (166,545,944)</u>	<u>\$ 125,065,015</u>
Capital and surplus, December 31, current year	<u>\$ 1,881,689,974</u>	<u>\$ 1,257,863,336</u>	<u>\$ 1,142,177,120</u>	<u>\$ 1,077,383,706</u>	<u>\$ 1,243,929,650</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Analysis of Changes to Surplus

No adjustments were made to surplus as a result of the examination.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included a review of the Company's Annual Statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of the accounts for unrecorded items. The examination of contingent liabilities and pending litigation did not identify any material deficiencies in the recorded liabilities or undisclosed material contingencies.

The Company's Chief Executive Officer and its Chief Financial Officer executed a letter of representation, attesting to the non-existence of unreported liabilities and contingencies as of December 31, 2017.

SUBSEQUENT EVENTS

A review of events subsequent to the December 31, 2017 examination date was done. The following items were noted during this review:

- The President and Chief Executive Officer, Terry Dee Kellogg was replaced by Timothy Vines.
- Dick Dowling Briggs III, M.D. replaced Timothy Vines as the Chief Operating Officer.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regards to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with those recommendations with the following exceptions.

The previous report included a recommendation for the Company to properly notify terminated producers of their terminations by sending termination notices to the producer's last known address. The previous report included a recommendation for

the Company to properly notify the Alabama Department of Insurance of producer terminations. The Company did not comply with either of these recommendations. Further discussion of these examination findings were included in the "Compliance with Producer Licensing Requirements" section of this report on Page 24.

COMMENTS AND RECOMMENDATIONS

Compliance with Producer Licensing Requirements – Page 24

It is recommended that the Company send termination notifications to its terminated producers' last known address in compliance with ALA. CODE § 27-7-30.1 (a) (1975), which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

It is recommended that the Company send termination notifications to the Alabama Department of Insurance in compliance with ALA CODE § 27-7-30 (e) (1975), which states:

Subject to the producer's contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

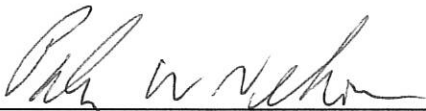
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers of Blue Cross and Blue Shield of Alabama during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Theo Goodin, MCM, Jacob Grissett, Kevious Hollenquest, Denise Riggins, William Smith, Charles Turner, CISA, examiners for the Alabama Department of Insurance and Harland A. Dyer, ASA, MAAA, consulting actuary represented the Alabama Department of Insurance and participated in the examination of Blue Cross and Blue Shield of Alabama.

Respectfully submitted,



Palmer W. Nelson, CFE
Examiner-in-Charge
State of Alabama
Department of Insurance